



## BRIEFING NOTE FOR DECISION

NORTHERN DEVELOPMENT INITIATIVE TRUST  
September 25th, 2009 Special Board Meeting

**Subject:** Due Diligence for Commonwealth Campus Corporation  
'Wood Innovation and Design Centre' Land Assembly

**Background:**

On September 16, 2009, the Board of Northern Development Initiative Trust directed that due diligence be completed on a potential loan to Commonwealth Campus Corporation (0861221 BC Ltd.) for up to 75 % of the transfer value of the 500 block of George Street in downtown Prince George. The proposed structure of the loan would be as follows:

- Borrower:** 0861221 BC Ltd. also legally known as Commonwealth Campus Corporation (CCC)
- Lender:** Northern Development Initiative Trust (Northern Development)
- Project name:** Wood Innovation and Design Centre (also referred to as the Downtown Campus Project)
- Program:** Fund purchase, demolition and environmental remediation of 500 Block George Street, Prince George, BC. This land assembly for UNBC is for the express purpose of constructing the 'Wood Innovation and Design Centre' (WIDC)
- Loan amount:** A maximum of \$8,887,500 (75% of proposed maximum costs of the block assembly and remediation costs, less \$400,000 for the Northern Development acquisition of City of Prince George lots or City donation of properties)
- Rate:** 6.5%, simple annual interest paid monthly, fixed, 3 year term
- Repayment:** Approximately \$48,140 monthly, interest only, with an agreement for sale of the assembled and remediated block to Northern Development for a maximum of \$11,750,000 within two years with an option for a year extension

After the acquisition of the entire block from Commonwealth Campus Corporation (\$11,850,000) and the City of Prince George (\$400,000), Northern Development would propose to transfer the remediated and level block to UNBC for \$12,495,000 (less any cost recovery described in conditions precedent). This loan and purchase/sale transaction is subject to approval from Treasury Board for the capital investment in the Wood Innovation and Design Centre and inclusion in the 2010/11 or 2011/12 Provincial Budget. The preference would be for the transfer to occur in the 2010/11 fiscal year.

**Property Acquisition Strategy**

The following details all of the properties within the 500 block of George Street as illustrated on the attached 500 Block George Street Site Plan. In addition, the chart below outlines the assessment purchase price and closing dates of the properties to be acquired by Commonwealth Realty Corporation. The exception is the City of Prince George 4<sup>th</sup> Avenue Parking that will be acquired by Northern Development Initiative Trust through either market value sale or donation by the City. Further, the chart outlines the estimated hard and soft costs associated with the demolition and remediation of the subject properties.

Application and Correspondence

**Purchase:**

	Address	Area	Owner	Current Use	2009 Assessment	Purchase Price	Closing Date
1)	1189-4th Ave.	2-lots	The Emri Group	Greek Restaurant	\$375,000	\$650,000	31-Dec-09
2)	1173-4th Ave.	4-lots	City of PG	4th Ave. Parking	\$298,900	From \$1 up to \$400,000 subject to agreement with UNBC and 8C	Purchased by NDIT prior to March 2011
3)	409 George St.	1-lots	Babine Inv.	Vacant store	\$105,000	\$275,000	30-Nov-09
4)	421 George St.	1-lots	A. Sotolon Tr.	Sassafras Catering	\$179,200	\$275,000	30-Jan-10
5)	427 George St.	1-lots	D. Carmichael	Book store	\$133,700	\$275,000	30-Jan-10
6)	445 George St.	1-lots	R. Jones	Mall Box Etc.	\$150,800	\$150,000	30-Sep-09
7)	487 George St.	4-lots	Coole Hotel Ltd.	PG Hotel	\$1,101,000	\$2,000,000	01-Dec-09
8)	1142-5th Ave.	4-lots	Coole Hotel Ltd.	PG Hotel - Parking	\$297,000	above	01-Dec-09
9)	1192-5th Ave.	2-lots	Starlane Enter.	The Rum Jungle	\$526,000	\$1,900,000	TBD
		20-lots			\$3,166,600	\$5,925,000	

**Plus other:**

	Activity	Cost
Hard Costs	Demolition **	\$2,508,798
	Environmental clean-up **	\$1,408,000
	Subtotal:	\$3,916,798
	25% Contingency	\$983,202
		\$4,900,000
Soft Costs	Project management	\$400,000
	Contingency	\$350,000
	Developer Fees	\$375,000
	Taxes, Legals & closing	\$300,000
		\$6,325,000

\*\* Please see Appendix A: Demolition & Environmental Cost Estimates for details.

**Total \$12,250,000**

ID	Task Name	Start	Finish	Aug	Sep	Oct	Nov	Dec	2010	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug
1	Deposit PG Hotel	Wed 9/30/09	Wed 9/30/09		A												
2	Close Mail Boxes Etc.	Wed 9/30/09	Wed 9/30/09		A												
3	Close Babine Inv.	Mon 11/30/09	Mon 11/30/09				A										
4	Close PG Hotel	Tue 12/1/09	Tue 12/1/09				A										
5	Close Bus Depot	Mon 12/21/09	Mon 12/21/09					A									
6	Demolition & Remediation	Fri 1/1/10	Wed 6/30/10														
7	Close Bookstore	Sat 1/30/10	Sat 1/30/10							A							
8	Close Sassafras	Sat 1/30/10	Sat 1/30/10							A							
9	Close Rum Jungle	Sat 1/30/10	Sat 1/30/10							A							
10	Close City Lots	Sat 1/30/10	Sat 1/30/10							A							

**Application and Correspondence**

1. I have reviewed the letter of Intent from Dr. Iwama, President of UNBC which confirms the Intent of the University to acquire the 500 Block of George Street for the 'Wood Innovation and Design Centre' that will be the location for a partnership of UNBC, CNC, UBC, and the Emily Carr College of Art and Design to provide a campus for research and academic instruction in a wide range of disciplines focusing on wood, such as engineering, technology development, policy and fine arts. The campus would also potentially serve as the location of Crown and industry agencies including Forest Innovation Investment and Wood Works. The University commits to preparing a submission to the Ministry of Advanced Education and Labour Market Development by early December 2009 with a request that the Province will accelerate funding for this project to start capital expenditures in fiscal year 2010/11.
2. I have had discussions during September of 2009, with the Honourable Pat Bell, Minister of Forests and Range, the Honourable Shirley Bond, Minister of Transportation and Infrastructure and Vice Chair of Treasury Board, Deputy Minister of Forests Dana Hayden, and Peter Fuglem, Executive Director Wood First, who have all clearly articulated the strong interest of having UNBC's Wood Innovation and Design Centre located in downtown Prince George. The Province is aware of the land assembly opportunity underway on the 500 Block of George Street and that it is a preferred location for both UNBC and the City of Prince George.
3. I have reviewed the references to the Wood Innovation and Design Centre in the 2008 and 2009 Throne Speeches which sets direction on government priorities.
4. I have reviewed the BC Liberal Platform document 'Keep BC Strong', where the Wood Innovation and Design Centre at UNBC is mentioned several times including within the section on 'Investing in Innovation, Research and Technology, which states that "The new Wood Innovation and Design Centre at UNBC and the new Pacific Centre for Climate Solutions will also help shape the future." This shows political intent complementary to the Throne Speech.
5. I have reviewed the incorporation and shareholder documentation for 0861221 BC Ltd. commonly referred to as Commonwealth Campus Corporation (name reserved with BC Registrar of Companies) and I find it to be in order. There are no apparent potential 'conflict of interest' situations that I anticipate will arise from any provincial, municipal, University, College, Northern Development staff or decision makers participating in any manner that would personally benefit from these transactions.
6. I have reviewed a copy of all accepted offers for each property on the 500 Block George Street and find them generally consistent with the summary information put forward by the development corporation. The exception is an offer to Starlane Entertainment (Rum Jungle) which has not yet been made.
7. I have reviewed all accepted offers to ensure that they allow for an orderly closure and removal of any assets, residents, and effects by actions of the owner, and that the closing dates are for vacant properties. None of the facilitating or purchasing parties including Northern Development, City of Prince George, UNBC, or the Province will be directly associated with any evictions of tenants or closures of establishments or premises.
8. I have reviewed all 2009 assessments, as well as reports on the condition of property that were compiled by Town and Country Inspection Services Ltd.
9. I have reviewed the Phase 1 Environmental Site Assessment of the Prince George Hotel prepared by AMEC Earth and Environmental, dated August 21, 2009. I have conversed with the consulting engineer and find that the budgeted remediation costs are reasonable.

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#### Application and Correspondence

10. I have reviewed the demolition and environmental remediation Class D assessment from IDL Projects Inc. as well as their credentials on completing projects of a similar scope. They are an approved contractor by the City of Prince George and they recently completed the demolition and remediation of the fire damaged Columbus Hotel in Prince George.
11. I have reviewed the project timeline and find it to be reasonable. Demolition and environmental remediation is proposed to commence on January 1<sup>st</sup> 2010. It would be very appropriate for UNBC, the Provincial Government, the City of Prince George and Northern Development to jointly make an announcement about the 'Wood Innovation and Design Centre' location after Treasury Board has approved a capital submission by UNBC and an MOU has been established with NDIT which enables the acquisition and transfer.
12. I have reviewed the monthly cash flow for this project and find it to be reasonable and consistent with good project management and all documentation on the property acquisition.
13. I have made an offer for Northern Development to acquire the City of Prince George Parking Lot that was accepted by City Council on September 21, 2009. One dollar financial consideration is proposed to be provided to the City of Prince George until the point in time that the University of Northern BC closes the transaction. At that point the City desires \$400,000 which city staff consider to be market value for the property. I have reviewed the pertinent portions of the Community Charter and find this transaction to be consistent with the City's powers under the Charter. I do however have advice from Larry Blaine, CEO of Partnerships BC and Dana Hayden, Deputy Minister of Forests, who advise that the normal practice is for a City to provide municipal lands into this sort of capital project as a contribution/donation. My preference is that the City of Prince George, the University and the Province mutually determine a transfer cost prior to Northern Development entering into an agreement for sale.
14. I have reviewed the offer from the developer group to provide the first 25% of property acquisition, demolition and remediation costs and their financial resources to do so. I have also reviewed the offer to provide the following:
  - General Security Agreement covering all assets of the borrower.
  - First Collateral Mortgage coverage for all properties.
  - Assignments of Rent(s).
  - Personal Guarantee from President, D.R. McLaren in the amount of \$1 million.
  - Life Insurance coverage over key personnel of O861221 BC Ltd. (Commonwealth Campus Corp.) - \$12 million in total
15. I have reviewed the 'Smart Growth on the Ground in Downtown Prince George' report that was endorsed by the City of Prince George Council on September 14<sup>th</sup>, 2009 and find this project to be consistent with the principles and vision of that concept planning exercise.
16. I have reviewed a letter from Adela Yakemchuk, Senior Business Officer with Business Development Bank of Canada in Prince George, who advises that this is a "bankable deal", once a phase 2 environmental assessment has been done. From the letter it appears that once clean up is underway and the Province is on-side, there is every reasonable likelihood that take-out financing could be obtained by Commonwealth Campus Corporation.
17. I have provided the due diligence briefing note to Larry Blaine, CEO of Partnerships BC who leads the organization with the mandate for assessing, reviewing, facilitating and managing public private partnerships. A meeting resulted in Larry Blaine offering staff resources to assist UNBC in the immediate development of the concept presentation and business case for Treasury Board. He advised that he believes this to be a very comprehensive due diligence review and suggests no additional due diligence is

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Application and Correspondence

required other than a commitment by Treasury Board to proceed with the land acquisition and an MCO with the University, prior to Northern Development conveying funds via a loan.

18. I have arranged to attend weekly project management meetings of the development group to provide oversight and safeguard the interests of the Northern Development Initiative Trust and UNBC, and ensure that any public interests that are not anticipated at this time are communicated first hand. If the board chooses to enter into a letter of intent with conditions.

#### *Value Assessment*

1. I have reviewed a letter by Howie Charter, Vice President and Managing Director, Colliers International who has experience assessing several land assembly projects noted below, and find the implementation and financial information for the 'Wood Innovation and Design Centre' to be reasonable and viable.

- a. City of Calgary (East Village Urban Renewal) -- As part of the City's urban renewal initiative in Calgary's downtown east side, Howie Charters led the Colliers team in developing their real estate strategy. The strategy involved the exchange/sale of city and privately owned land to create consolidated large scale sites. One of the sites would accommodate a new University of Calgary downtown campus and the other for a private sector signature mixed use development.

- b. City of Surrey (Whalley) -- Working for a provincial crown corporation, developed the land assembly strategy to create the new "Surrey City Centre" development in Whalley. He led the Colliers team in the preparation of the business case for the donation of city land and zoning entitlements to enable the construction of the new home for Tech BC, which later evolved into an SFU campus. He continues to consult to SFU on the campus expansion and acquisition strategy for the Surrey Campus.

- c. Govt. of Canada (RCMP) -- Advised the RCMP on the real estate alternatives for the development of the new \$500 million E Division Headquarters in Surrey B.C. The assignment involved the identification and analysis for site acquisition, and alternative facility delivery methodologies.

2. I have received a review letter from Ivan Jorgensen, AACI, P. App of Jorgensen Appraisals which finds the prices paid or offered to be within a reasonable range of sales of other properties in the general neighbourhood. The exceptions are the two properties having a liquor license which have a unique value for the license. Therefore, I have negotiated an agreement with the development group to lower the cost of the transaction with the University by 50% of the revenue received upon the sale of liquor licenses or a cabaret license to other parties. (see note in value assessment)

3. I have requested a letter from Ian Wells, AACI, City of Prince George, who has verbally advised me that the accepted offer on the Prince George Hotel is \$2 million lower than a previous offer that the City of Prince George was able to negotiate in 2008. Ian attests that there is strong value in the package being put forward. Prince George City Manager Derek Bates, and Mayor Dan Rogers have both verbally advised me that Council is very supportive of the acquisition of the 500 Block of George Street for the Wood Innovation and Design Centre, that this is consistent with zoning and the Mayor's task force report on Downtown Revitalization that will be presented to City Council on October 19<sup>th</sup>, 2009 for endorsement.

4. I have reviewed the developer fees of \$375,000 which are approximately 6.85% of the land acquisition costs or 11.5% including \$300,000 for taxes, legal fees and closing. This is substantially less than the normal development fee cost charge which can range up to 30% in similar land assembly transactions.

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#### *Application and Correspondence*

5. I have reviewed the Class D estimate by IOL Projects Ltd and have advised the developer that they will require a minimum of two competitive Class D 'all inclusive' estimates at this time to satisfy me that the demolition and environmental remediation is competitively quoted.

#### *Conditions Precedent*

1. A Memorandum of Understanding between Northern Development Initiative Trust and UNBC, stating that UNBC will commit to submitting a complete proposal to the Ministry of Advanced Education and Labour Market Development for capital required to acquire land and construct the Wood Innovation and Design Centre. The intent of the MOU is that subject to Treasury Board approval, the assembled and environmentally remediated land on the 500 Block of George Street would be acquired from the Northern Development Initiative Trust within fiscal 2010/11 (preferred) for a maximum price of \$12,495,000, which includes a 2% administration fee to Northern Development Initiative Trust. This price will be lowered by any donation of land by the City and any cost recoveries from the transfer of liquor licenses.
2. Northern Development Initiative Trust will enter into a terms sheet for a loan agreement with 0861221 BC Ltd. for up to \$8,887,500 with the fully demolished and environmentally remediated vacant block to 'commercial lending standards'. One clause will be a first option to purchase the land subject to a Treasury Board capital project approval for the WIDC. The option would occur at the amount of the loan plus the agreed upon developer equity with no additional fees. Northern Development will facilitate any potential lowering of its 75% loan amount and any transfer cost by the following negotiated terms with 0861221 BC Ltd.
  - a. The developer agrees to remove from the transaction cost 50% of any revenues realized from the sale of liquor or cabaret licenses from the acquired properties. This will amount to \$125,000 from the \$250,000 transfer from the liquor licenses from the Prince George Hotel to the Ramada Hotel, and a currently unknown transaction price for the eventual transfer of the cabaret license for the 'Rum Jungle' if a buyer can be found.
  - b. The developer agrees to lower the cost to Northern Development by 50% of any savings realized below \$1.9 million budgeted for the acquisition of the 'Rum Jungle' from Starlane Entertainment.
  - c. The lower of at least two competitively sourced Class D estimates for 'all inclusive' demolition and environmental remediation' to commercial lending standards.
3. The City of Prince George will transfer title to four lots located at 1173 4<sup>th</sup> Avenue, Prince George and related alleyways (parking lot) to Northern Development for a value to be determined by discussions between the City, Province and UNBC. Northern Development will correspondingly transmit the lands as instructed in approvals sought under the proposed MOU with UNBC. The City will certify that the lands are environmentally clean to commercial lending standards by December 31, 2009. The City will provide a License of Occupation to allow demolition and construction activities prior to closing. Should construction not be commenced on the WIDC by October 31, 2012, the City would have the right to buy-back the parcel for the transfer amount with each party to cover their own transaction costs.
4. UNBC, the Provincial Government, the City of Prince George and Northern Development to jointly make an announcement about the 'Wood Innovation and Design Centre' location after Treasury Board have approved the capital submission by UNBC. The organization of this event would be taken on by the Provincial Government Public Affairs Bureau.

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Application and Correspondence

I conclude that this Initiative represents a good opportunity for Northern Development to show a direct linkage between the fund and local economic improvements of a major and enduring nature. There is a level of risk around the approval of the Treasury Board submission for capital funding for UNBC, but all parties are showing good faith and extraordinary effort in working together and political motivation is strong to see the UNBC Wood Innovation and Design Centre constructed as a cornerstone of downtown revitalization in Prince George. The development of a terms sheet as recommended below has lower risk to Northern Development, but will facilitate confidence and compel the due diligence process forward.

#### RECOMMENDATIONS

1. THAT a terms sheet be developed to enable Northern Development Initiative Trust to provide a secured loan to the Commonwealth Campus Corporation (0861221 BC Ltd.) for a maximum of \$8,887,500, that facilitates the land assembly and environmental remediation of the 500 Block George Street in downtown Prince George. The terms sheet would be subject to a Treasury Board decision which approves sufficient capital budget for the construction of the 'Wood Innovation and Design Centre'. The understanding is that the capital would be flowed to UNBC via the Ministry of Advanced Education's capital budget.
2. THAT in association with a Treasury Board submission, Northern Development Initiative Trust enter into a Memorandum of Understanding with UNBC that articulates that the assembled and environmentally remediated land on the 500 Block of George Street, Prince George would be conveyed with clear title to UNBC within a two year period for \$12,495,000 in consideration, less any savings accrued by the conditions precedent, subject to UNBC receiving Treasury Board approval to proceed.

3. THAT Northern Development Initiative Trust enter into options to purchase with the following parties subject to a Treasury Board decision which approves sufficient capital to construct and operate the 'Wood Innovation and Design Centre'. The properties would then be conveyed to UNBC:

City of Prince George: An option to purchase clear title for environmentally remediated properties at 1173 4<sup>th</sup> Avenue. The amount will be determined through discussions between the Province, UNBC and the City of Prince George.

0861221 BC Ltd (CCC): Acquisition of clear title of environmentally remediated properties comprising the remainder of the 500 Block George Street for \$11,850,000, less any recovered costs on the sale of liquor licences, and a lower competitively obtained demolition and remediation quote.

Janine North  
Chief Executive Officer

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Application and Correspondence